

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-15)**

Subject

Initiative petition from Troy Stremming to amend various chapters of the Missouri Revised Statutes. (Received January 25, 2008)

Date

February 14, 2008

Description

This proposal would enact the "The Schools First Elementary and Secondary Education Funding Initiative" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Missouri Gaming Commission**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Clay County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Cape Girardeau**, the **City of Kansas City**, the **City of St. Joseph**, the **City of St. Louis**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** indicated that implementing this proposal would not directly affect their office. However, they assumed that because this proposal has the potential to be the subject of state litigation, potential costs are unknown.

Officials from the **Department of Economic Development** indicated the proposal should have no direct administrative or fiscal impact on their department.

Officials from the **Department of Higher Education** indicated that this initiative would have no foreseeable direct fiscal impact on their department.

The **Department of Health and Senior Services** indicated no impact for their agency.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** indicated the proposal will have no fiscal impact their department.

Officials from the **Department of Natural Resources** indicated this initiative does not appear to have any direct fiscal impact on their agency.

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** indicated this petition has no fiscal impact on their agency.

The **Department of Revenue** indicated the proposal will have no impact to their department.

The **Department of Public Safety** indicated there is no fiscal impact for the director's office. The department forwarded the request to the Veterans Commission and National Guard for their possible response.

Officials from the **Department of Public Safety-Missouri Veterans Commission** indicated this proposal has no impact to the commission.

Officials from the **Department of Public Safety-Missouri Adjutant General** indicated this proposal does not impact their division and any proceeds received by their office.

Officials from the **Department of Public Safety-Missouri Gaming Commission** provided the following information regarding the estimated tax and fee impact as a result of the \$500 loss limit repeal and 1% tax increase:

\$500 Loss Limit Repeal and 1% Tax Increase

Estimated Tax & Fee Impact

	AGR	State AGR Tax	Local AGR Tax	Patrons	WPP	New AGR Taxes	New Admissions Tax
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Missouri Boats - FY '07--BASE

\$ 1,599,686,340	\$ 287,943,541	\$ 31,993,727	23,478,176	\$ 68.14		
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30% of Missouri Gaming Population

go out of state due to loss limit and confidentiality concerns -- new patron base

30,521,629

(MGC Survey data indicate that 30% of Missouri gamers go out of the State to gamble due to the intertwined issues of the loss limits and confidentiality regarding card usage)

Impact on State AGR Tax and Admission Fee

Estimate of increased AGR due to repeal of loss limits	\$ 2,079,743,786
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Estimate of increased AGR Tax @ 18% State gaming tax with loss limits repeal (<i>current state rate</i>)	\$ 374,353,882
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Net new State AGR taxes	\$ 86,410,340
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Estimate of increased AGR Tax @ 18.9% State gaming tax (<i>increased state's share of 1% increase AGR Tax</i>)	\$ 393,071,576
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Net new State AGR taxes	\$ 105,128,034
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Estimate of net increased State Admissions Tax due to repeal of loss limits

\$ 7,043,453

Impact on Local AGR Tax and Admission Fee

Estimate of increased Local AGR Tax @ 2% State gaming tax with loss limits repeal (<i>current local rate</i>)	\$ 41,594,876
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Net new Local AGR taxes	\$ 9,601,149
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Estimate of increased AGR Tax @ 2.1% State gaming tax with loss limits repeal (<i>increased local's share of 1% increase AGR Tax</i>)	\$ 43,674,620
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Net new Local AGR taxes	\$ 11,680,893
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Estimate of net increased Local Admissions Tax due to repeal of loss limits

\$ 7,043,453

Impact of State and Local AGR Tax and Admission Fee

Estimate of increased AGR due to repeal of loss limits	\$ 2,079,743,786
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Estimate of increased State and local AGR @ 20% State and local gaming tax (<i>state and local combined</i>)	\$ 415,948,757
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Net new State and Local AGR taxes	\$ 96,011,489
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Estimate of increased State and local AGR @ 21% State and local gaming tax (<i>state and local combined with 1% increase</i>)	\$ 436,746,195
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Net new State and Local AGR taxes	\$ 116,808,927
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Estimate of net increased State and Local Admissions Tax due to repeal of Loss Limits

\$ 14,086,906

The Missouri Gaming Commission also provided estimates regarding the impact of Kansas gaming. Without passage of this proposal, they estimated that Missouri would lose between \$36.2 million and \$49.9 million annually attributable to Kansas gaming.

The **Department of Social Services** indicated the department benefits from the "Early Childhood Development, Education and Care Fund"(Section 313.835.1(3)(d) RSMo) within the "Gaming Commission Fund." The "Gaming Commission Fund" consists of license fees, penalties, administrative fees, and admission fees, not the gross receipts tax. As the initiative petition does not change Section 313.835, the Department anticipates no direct fiscal impact from this proposal.

Further the Department stated that the freeze on additional gambling licenses could limit potential growth of the industry and consequently the amount of money available to them from the "Gaming Commission Fund." However, the potential affect is unknown since the pattern of new boats or increased revenue from existing boats cannot be predicted by their agency.

Officials from the **Governor's Office/Office of Administration** indicated passage of this proposal will not result in additional costs or savings to their agencies. They did provide an estimate of a statewide fiscal impact:

This proposal makes changes to the state's gaming statutes, creates a new state fund for education purposes, and changes the state adequacy target of the state's foundation formula.

If passed by the voters, Budget & Planning (B&P) assumes that this proposal will become effective December 1, 2008.

Gaming Revenues

B&P assumes that the elimination of loss limits, and the increase in AGR tax, will increase state revenues. The relaxation of identification requirements may also increase casino admissions, and therefore AGR, but B&P has no means to estimate this impact.

To estimate the increase in AGR, the gaming receipts of nearby Illinois, Indiana, and Iowa were compared to Missouri. According to reports on the websites of each state's gaming authorities, the following figures were available for each state's most recently completed reporting year.

	Receipts	Patrons	Receipts Per Patron
Missouri	1,599,686,340	23,478,176	68.14
Illinois	1,923,528,409	16,184,360	118.85
Iowa	860,076,528	15,085,924	57.01
Indiana	2,663,955,493	27,537,337	96.74
Not Missouri	5,447,560,430	58,807,621	92.63
	Increase over Missouri		36.0%

However, these three states have casinos that vary greatly in size compared to Missouri's, especially near Chicago. B&P next compared the casinos in the St. Louis area.

Casino	State	Receipts	Patrons	Receipts Per Patron
President	MO	67,269,234	1,296,365	51.89
Ameristar	MO	300,247,313	3,989,766	75.25
Harrah's	MO	325,249,730	4,306,986	75.52
Alton Belle	IL	121,690,377	1,469,301	82.82
Casino Queen	IL	174,279,291	2,103,838	82.84
	MO	692,766,277	9,593,117	72.21
	IL	295,969,668	3,573,139	82.83
		Increase over Missouri		14.7%

Based on these data, an increase of 14.7%- 36% may be expected in gaming receipts if loss limits are removed. B&P assumes a 20% increase in win per patron is the most likely case.

Further, B&P assumes an increase of 10% in total admissions as a result of the removal of loss limits, as casinos would become more attractive to gamers. This estimate is based on prior information submitted by the Missouri Gaming Commission to B&P.

The base forecast for fiscal years 2009 and 2010 includes a slight decline in admissions between these two years, reflecting the current declining trend as well as possible impacts from the anticipated opening of Kansas casinos, possibly in the spring of 2009. The base forecast, however, includes an increase in win per admission, which also reflects current trends.

B&P assumes current gamers would increase their average wagers by 20% as a result of the loss limit removal, and that new gamers attracted to Missouri facilities would also gamble at the higher rate.

For fiscal year 2009 B&P estimates this proposal would increase total gaming revenues by \$82.36 million, including \$68.84 million for state education, \$2.93 million for the state gaming commission, and \$10.58 million for local governments. For fiscal year 2010 (first full year of implementation) B&P estimates this proposal would increase total gaming revenues by \$141.11 million, including \$118.07 million for state education, \$4.96 million for the state gaming commission, and \$18.08 million for local governments.

School Funding Formula

The proposal changes the current calculation of the state adequacy target by adding the quotient of the total amount of state funds placed in the Schools First Elementary and Secondary Education Improvement Fund in the preceding fiscal year divided by the total average daily attendance of all school districts for the preceding fiscal year.

B&P assumes the change to the state adequacy target begins in fiscal year 2010 since it's the first year the calculation can be made based on the preceding fiscal year provisions in Section 163.011(18).

B&P based its estimated changes to the state adequacy target for fiscal years 2010 and 2011 on the current FY 2009 formula estimate and its calculations of the estimated increase in gaming revenues.

For FY 2010 B&P estimates the state adequacy target to increase \$83.44 per pupil and an overall cost to the formula of \$32.2 million. For fiscal year 2011 B&P estimates the state adequacy target to increase \$143.03 per pupil and an overall cost to the formula of \$75.2 million.

Estimated increased costs to the formula of \$32.3 million in FY 2010 and \$75.2 million in FY 2011 were calculated using the weighted average daily attendance from FY 2009, the best data available. Weighted average daily attendance numbers will increase for FY 2010 and FY 2011, which will result in a fiscal impact greater than \$32.3 million in FY 2010 and \$75.2 million in FY 2011. Increases in weighted average daily attendance for FY 2010 and FY 2011, and the resulting fiscal impact, cannot be estimated at this time.

Officials from the **Missouri House of Representatives** indicated this proposal has no fiscal impact relating to their operations.

The **Department of Conservation** indicated no fiscal impact would be expected to their agency as a result of this proposal.

Officials from the **Office of State Courts Administrator** indicated that this proposal should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated this initiative appears to have no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

Officials from the **State Treasurer's Office** indicated this proposal will not impact their office.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the amendment would have no fiscal impact on their organization.

The **University of Missouri** indicated this initiative petition will have no identifiable fiscal impact on their organization.

Officials from the **State Auditor's Office** indicated that 1 FTE at the Senior Auditor II level and 1 FTE at the Staff Auditor II level would be necessary to fulfill the annual audit requirements in Section 313.822(3) at cost of \$131,972 for FY 2010.

The **Yes for Schools First Coalition** provided fiscal impact information related to the proposal which is summarized as follows:

The Schools First Elementary and Secondary Education Funding Initiative will generate approximately \$130,000,000 or more annually in new state revenues to be used solely for elementary and secondary education, and \$5 million for early childhood education and other statewide programs. Local government revenues will increase by more than \$19,000,000 annually. In addition, the Coalition stated that if this measure does not pass, the impact of the recently enacted Kansas gaming law would decrease the Missouri Gaming Proceeds for Education Fund by \$47 million.

The State Auditor's Office did not receive a response from the **Department of Agriculture, Department of Elementary and Secondary Education, the Department of Transportation, Clay County, Jackson County, St. Charles County, St. Louis County, the City of Cape Girardeau, the City of Kansas City, the City of St. Joseph, the City of St. Louis, Cape Girardeau 63 School District, Hannibal School District #60, Rockwood R-VI School District, St. Louis Community College.**

Fiscal Note Summary

State governmental entities will receive an estimated \$105.1 to \$130.0 million annually for elementary and secondary education, and \$5.0 to \$7.0 million annually for higher education, early childhood development, veterans, and other programs. Local governmental entities receiving gambling boat tax and fee revenues will receive an estimated \$18.1 to \$19.0 million annually.